

Minutes Of The Board Of Trustees City Of Cincinnati Retirement System March 2, 2006

Mr. Gray called the meeting to order at 1:30 p.m. with the following members present:

Joe Gray, Secretary

Joe Harrison

Michael Rachford

Brian Pickering

Marijane Klug

Ely Ryder

Julie Brinker (proxy for John Cranley) arrived at approximately 1:40 p.m.

Member/s Absent

Dan Radford, Chairman

David Rager, City Manager

Mark Mallory, Mayor

Mr. Gray called for a motion to approve the minutes of the February 2, 2006 Board Meeting. The motion to approve the minutes was made by Ms. Klug, seconded by Mr. Pickering, and carried by the Board.

BENEFITS COMMITTEE

Mr. Harrison reported that the Benefits Committee met on February 23, 2006, at 2:00 p.m. in Committee Room B. Mr. Harrison reported that all Benefit Committee members were present at this meeting.

Mr. Harrison presented the following report to the Board:

1. Application for Ordinary Retirement - March, 2006: Total – 6

NO.	NAME	DEPARTMENT
32273	Anthony Huang	MSD
43601	William Spurling	Buildings & Inspections
44686	Gregory Huber	University of Cincinnati
47915	Donald Sena, Jr.	Buildings & Inspections
52327	Marie Angel	Convention Center
52471	Dennis Bingham	Water Works

2. Application for Retired Members Deaths: Total – 7

Mr. Harrison moved that the Board accept the report of the Benefits Committee. The motion was seconded by Mr. Pickering and carried by the Board.

INVESTMENT COMMITTEE

Mr. Gray reported that the Investment Committee met on February 28, 2006, at 1:30 in City Hall – Room 115. At the meeting, presentations were given by fixed income managers Pacific Investment Management Company (PIMCO) and Blackrock. (For detailed notes on their presentations, see the Investment Committee minutes for this meeting.) Mr. Pat Thompson, CRS investment consultant, was also on hand to deliver the investment performance report for the fourth quarter of 2005. Because there was no quorum at this meeting, there were no actions taken on the watch list status of the investment managers.

Mr. Walsh, Acting Pension Fund Manager, commented that PIMCO and Blackrock had different forecasts for the direction of interest rates. Blackrock believes current interest rates are low relative to the economic growth rates, and they expect the Federal Reserve Board to increase rates a few more times in 2006. PIMCO believes the U.S. economy will slow, and that the Federal Reserve is very near the end of increasing the fed funds rates. Because of their different forecasts, the duration of the Blackrock portfolio is shorter than the duration of the Lehman Aggregate index and the duration of the PIMCO portfolio is longer than the index.

When asked if there was any additional investment authority they would like to have in managing the CRS assets, both Blackrock and PIMCO recommended giving them the authority to invest in international bonds. Both managers indicated that allowing them to opportunistically invest up to 10% of the portfolio in non-dollar denominated bonds would allow them to increase long-term returns without increasing the risk level of the portfolio. Mr. Walsh indicated that the Investment Committee was going to consider this recommendation at their next meeting.

Mr. Walsh also commented that the investment consultant's performance report indicates the total fund returns for 2005 were 6.48%. Although this exceeds the returns of the Cincinnati benchmark (6.26%), it did not meet the actuarial assumed rate of return

(8.75%). Thus, it is expected that the CRS actuary will report a funding ratio below the current 94% level when they present the 2005 actuarial valuation.

Mr. Pickering introduced the following motion to address the watch list status of the investment managers: “I move, based on year end 2005 information that the following Board Investment Managers be placed on the Investment Manager Watch List due to under-performance:

- 1) Montag Caldwell – Trails 3-year benchmark by 3.46% (1% is limit)
- 2) Ariel Capital Management – Trails 3-year benchmark by 6.75% (1% is limit), trails 5-year benchmark by 2.08% (0.75% is limit)
- 3) Smith-Graham & Co. – Trails 5-year benchmark by 0.31% (0.25% is limit). They are currently on the list for departure of the Chief Investment Officer.

Ms. Klug asked if the Board should consider terminating Smith-Graham. Mr. Ryder commented that Smith-Graham has under-performed for many years and they have never demonstrated any periods of strong performance. Mr. Ryder indicated that he would like to amend Mr. Pickering’s motion by proposing the Board terminate Smith Graham.

Mr. Harrison commented that the Board should not deviate from normal procedures and that the recommendation to terminate a manager should come to the Board from the Investment Committee. Mr. Harrison recommended that the Board approve Mr. Pickering’s motion as written, and that the Investment Committee discuss any terminations at their next meeting. After discussion, Mr. Harrison seconded Mr. Pickering’s original motion, and the motion passed unanimously.

Mr. Ryder then moved that the process be initiated to terminate Smith Graham as a fixed income manager and the retirement staff provide the Board with some options for placing the assets managed by Smith Graham. Mr. Gray seconded the motion, and the motion passed unanimously. The Board then instructed the retirement staff to set up a special Investment Committee meeting prior to the April Board meeting.

SECRETARY’S REPORT

Mr. Gray reported that as of January 31, 2006 the asset level of the fund was \$2.48 billion, an increase of 2.41% from the \$2.42 billion held at the beginning of the year. Mr. Gray also reported that the allocations for each asset class are all within the acceptable ranges of the new interim target allocations.

Mr. Gray also reported that the retirement staff had prepared a review of the 2005 budget as well as a budget recommendation for 2006. Mr. Walsh reported that as of February 1, 2006 actual expenditures (not including investment manager fees) for 2005 activity were \$1.53 million, about \$400,000 less than the approved 2005 budget of \$1.93 million. These savings were generated by three vacant staff positions throughout most of 2005, reduced inter-department billings from city agencies that provide services to the retirement system, and lower than expected travel expenses. Some of the savings were offset by utilization of more actuarial services than had been budgeted for 2005.

The total operating budget for 2006 is \$1.92 million, which is lower than the 2005 total budget of \$1.93 million. The 2006 budget includes increased expenditures for personnel and postage/communications, but reduced expenditures for inter-department billings.

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 44
2. Resolution for Return of Contribution & Deaths of Pensioned Members
Total – 28 Amount: \$118,927.44
3. Resolution for Loans to Members – Total: 46 Amount: \$386,060.06
4. Resolution for Deaths of Pensioned Members – Amount: 18

The Secretary submitted the following vouchers for payment:

PAYEE	AMOUNT
NELCO – Billing for additional 2005 1099 Forms	\$94.60
Lee Personnel, Inc. – Temporary Personnel Services	\$83.01
Fifth Third Bank – Professional Services Rendered for 4 th Quarter Custodial Fees	\$25,451.31
Mercer Human Resource Consulting – Professional Services Rendered for Actuarial Services	\$38,862.00
Pensions & Investments – Advertisement for Pension Fund Manager	\$1,599.00
ABS Business Products, Inc. – Monthly Rental Base Rate for Copier	\$361.20
Business Information Solutions - Storage of CRS files	\$142.51
City of Cincinnati – Finance Printing Services – Billing for Postage & Printing Services for January and February 2006	\$11,943.61
City of Cincinnati – Finance Accounts & Audits- Charges for Cinsy Billing for Dec. 2005	\$4,886.41
Lee Personnel Inc. – Temporary Personnel Services	\$8,659.62
City of Cincinnati – Accounts & Audits – Charges for 1 st Quarter Medical Insurance	\$12,707.79
Paul T. Hogya, MD – Professional Services Rendered for Disability Exams	\$2,350.00
Mae Consulting – Professional Services Rendered	\$90.00
City of Cincinnati – Printing Services – Charges for Postage & Printing Services for March 2006	\$2,488.99
Michael Rachford – Reimbursement for airfare conference Apr 27 – May 5, 2006	\$339.61
City of Cincinnati Communications Technology Services – For telephone services for 4 th Qtr.	\$994.50
Ohio Police & Fire Pension Fund – Reciprocity Transfers	\$37,899.66

The Secretary reported that at the close of business February 31, 2006, there was in the Treasury to the credit of the Retirement System the amount of \$6,283,385.55

Asset Valuation:

- December 31, 2005: \$2.42 billion
- January 31, 2006: \$2.48 billion
- YTD Increase: \$2.41%

Current Asset Allocation: (Interim Policy Objective)

- Domestic Equity: 51.7% (52.7%)
- International: 17.2% (16.9%)
- Fixed Income: 29.7% (29.5%)
- Alternative Assets/Treasury Cash: 1.4% (0.9%)

PENDING BUSINESSCitizen Member Trustee

Mr. Gray reported that the Retirement Board's recommendation to nominate Dan Radford as the citizen member representative went to City Council on March 1, 2006, and City Council referred the recommendation to the Finance Committee. Mr. Gray indicated that he expects the Finance Committee to send it back to City Council for approval at their March 15, 2006 meeting.

Mr. Radford commented that the Board would then need to consider adding a member from the Civil Service Commission at the next Board meeting.

Committee Assignments

Mr. Pickering commented that the Investment Committee has struggled with having quorums for its' meetings, so the Chairman may want to consider a revision in the committee assignments for 2006. Mr. Pickering also noted that the Board needed to select a Vice-Chairman due to the retirement of Bill Moller.

Mr. Ryder asked if Mr. Radford would remain as the Chairman if he moves into the citizen representative seat. Assistant City Solicitor, Roshani Hardin, indicated that Mr. Radford could continue as the Chairman as long as there is not a gap in his Board membership.

Mr. Pickering nominated Mr. Ryder to be the Vice-Chairman. Mr. Gray seconded the nomination. After discussion, Mr. Ryder's nomination as Vice-Chairman passed by a vote of 6-1, with Ms. Klug voting against the nomination.

Public Comments

Mr. Kevin Shepard, a retired member of the CRS and member of a retiree study group, addressed the Board. Mr. Shepard informed the Board that he has been in contact with the Ohio State Auditors office and has asked them to include an audit of the Cincinnati Retirement System in their annual audit of the City of Cincinnati. Mr. Shepard indicated that he is concerned about the fact that there is only one retiree representative on the Board even though there are now more retired members than full-time active members. He is also concerned about large increases in retiree medical costs and commented that adequate explanation has not been given to the retiree study group to support the rapidly increasing medical costs.

Mr. Shepard commented that it would be helpful to the Board if the State Auditor took an independent look at CRS and any proposed changes to the healthcare benefits. Mr. Shepard also commented that it would help the Board if they had a report from the State Auditor before developing any cost sharing plans.

ADJOURNMENT

Upon request of Mr. Gray for a motion to adjourn, the motion was made by Mr. Pickering, seconded by Mr. Harrison, and carried by the Board. The meeting was adjourned at approximately 2:30 p.m.